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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000448

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

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TAGS: EPET ENRG EINV ECON VE
SUBJECT: INSIGHT INTO 3.5 BILLION USD JAPANESE LOAN TO PDVSA

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (C) SUMMARY: Mitsui & Co. Ltd., Marubeni Corporation, and the Japan Bank of International Cooperation (JBIC) announced the closing of an agreement with PDVSA on February 23 for 3.5 billion USD, 15 year loan facilities in exchange for contracts that gave both companies rights to negotiate and conclude agreements to off-take crude oil and petroleum products with PDVSA during the loan period. The Japanese companies expect to recieve between 20,000 to 30,000 barrels of crude oil and products daily under the arrangement. JBIC and a commercial bank syndicate will provide the loan facilities for the off-taking transactions. PDVSA is free to use the loan proceeds as it deems best. Mitsui's partner companies will be able to participate in PDVSA projects. END SUMMARY

LOAN FACILITY

¶2. (C) Mitsui, Marubeni, and JBIC announced the closing of an agreement with PDVSA on February 23 for 15 year, 3.5 billion USD loan facilities. Local analysts, who met with Mitsui officials on February 28, told Petroleum Attache on March 1 that the agreement was an "unsecured loan facility". The analysts stated all of the funds will be disbursed to PDVSA in the next few days.

¶3. (C) According to the analysts, Mitsui and Marubeni will each have a five percent stake in the loan and JBIC will have a 54% stake. A commercial bank syndicate will hold the remaining 36% of the loan. The Mitsui executives told the analysts that the syndicate may be lead by the French bank BNP Paribas but they could not confirm it. Mitsui and Marubeni have formed two special purpose companies, Caribe Financing Company B.V. and Yupca Finance B.V. in the Netherlands. Both Mitsui and Marubeni have 50% stakes in Caribe and Yupca. The loans will be made to Caribe and

Yupca, which in turn will extend the loans to PDVSA. The loans will be serviced through the sales proceeds from Venezuelan oil and petroleum products via off-taking arrangements. Caribe and Yupca will handle the marketing of the crude and petroleum products. According to the analysts, proceeds from the sale of the crude and products will go to an escrow account that will use the funds to make loan payments.

¶4. (C) The Japanese during the negotiations sought to have a monitoring committee included in the terms. The final agreement does not provide for a committee and PDVSA is free to use the loan proceeds in any manner it wishes.

¶5. (C) Mitsui and Marubeni were originally going to hold greater stakes in the loan but they opted to lower their exposure and increase JBIC's. The decision benefited PDVSA because JBIC's financing costs are lower.

SUPPLY CONTRACT

¶6. (C) As part of the deal, Mitsui and Marubeni also signed separate contracts that gave them the right to negotiate and conclude agreements to off-take crude oil and petroleum products from PDVSA during the period of the loan. According to the analysts, the supply contract was signed in Japan on February 28. The contract is for 20,000 to 30,000 barrels of crude oil and products. (COMMENT: Although the analysts did not specify, we believe the contract is for 20,000 to 30,000 barrels per day. END COMMENT)

¶7. (C) The analysts stated the supply contract includes crude oil and products but is mainly for products. For example, it appears that one of the products will be residual that is used in the power sector. The contract gives PDVSA an excellent opportunity to commercialize residuals, which it has had difficulty marketing recently. (NOTE: Residual is heavy fuel oil made from residue, the bottoms from upgrading and refining units, plus the necessary cutter stock to meet market specifications. END NOTE.) In terms of crude oil, the parties appear to have low sulfur, high API oil, such as Santa Barbara crude, in mind.

¶8. (C) Mitsui executives told the local analysts that the supply contract will be analyzed each year and the type of shipments (the crude oil and products mix and specifications) will be set. The partners will also establish a price band. If oil prices go down, PDVSA will have to deliver more volume or pay the difference in cash. The Japanese stated they would rather receive oil and products instead of cash. If prices go higher, PDVSA will receive additional funds after the loan payment has been made. The invoices will be charged on a quarterly basis.

¶9. (C) PDVSA originally demanded that the partners provide it with the name of each refining user of the crude and products. However, in the final agreement, the crude and products shipments can be sold to any end user in Japan. The crude and products cannot be marketed in a country different than Japan.

RATIONALE FOR THE DEAL

¶10. (C) According to the analysts, all of the parties view the final deal as a "win-win" proposition. PDVSA received its loan almost immediately with no restrictions on the use of the proceeds. The Japanese view the deal as the first step in implementing the GOJ's decision to diversify its energy sources away from the Middle East. Mitsui also benefits because related companies will have increased opportunities to participate in Venezuelan energy projects. For example, the Toyo Engineering Company, which belongs to

Mitsui, is already involved in the Palito refinery and Moron complex projects. Mitsui hopes that the deal will help it place a project management team in the Anaco development.

COMMENT

¶11. (C) The deal came as a surprise to a number of our hydrocarbon sector contacts due to its size, the unsecured nature of the loan, and the incongruity that the conservative Japanese would become involved in Venezuela. However, if the deal results in greater Japanese participation in significant projects, it does make sense from a commercial perspective. Given the poor state of PDVSA's infrastructure, Japanese firms may be able to pick and choose from a number of significant projects over the life of the loan. We note that the companies that are handling the supply contract are incorporated in the Netherlands and thus benefit from the protections of a bilateral investment treaty.

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